

THE GROW ACT

COMPOSITE PLANS: NOT A SOLUTION

THE COMPOSITE PLAN CONCEPT

Appeal: The composite plan concept is attractive to employers for many reasons including: certainty regarding annual contributions; no withdrawal liability (83 at 3-8*); no PBGC premiums (82, 83 at 6-4); no requirement of a mandatory increase in employer contributions if a plan's funded ratio falls below 120% (14-22 at 6-5), and employer contributions will receive the same beneficial tax treatment as employer contributions to defined benefit plans (93 at 10-17).

Reality: Composite plans will not benefit our members for many reasons including: participants' benefits can be reduced or discontinued if a plan's projected funded ratio is below 120%; there is no limit to benefit reductions (14-22 at 6-5); risk will be completely shifted from employers, all risk will be assumed by participants; PBGC protections will not apply, if the composite plan fails, participants will not be guaranteed a benefit; and new participants will not be added to the associated defined benefit plan, the PBGC funding pool will become smaller, increasing PBGC funding requirements on the remaining plans. Composite plans are referred to as "pension plans" by the GROW Act, intentionally creating confusion about applicable laws and the benefits of composite plans. (*see generally* 1, 2).

WHY IS A NEW RETIREMENT PLAN TYPE NECESSARY?

Argument: The labor market is tight, composite plans are needed to give employers a competitive edge. New employers will not sign collective bargaining agreements because they will assume withdrawal liability.

Reality: Composite plans are not necessary. Defined benefit plans should be used by the IBEW and its employer partners to retain talent to man jobs. If there is a legitimate need for an alternative to a defined benefit pension plan, alternatives exist: adjustable benefit plans (plans that provide a floor benefit and a variable benefit that can increase based on the performance of the plan's investments), 401(k) plans, IRAs, profit sharing plans, etc. With the exception of 401(k) plans, employers will not receive beneficial tax treatment for their contributions to one of these alternative plans. Plan sponsors that decide to implement a composite plan will be legally required to continue funding the multiemployer plan and perform separate accounting for each plan, therefore, increasing their current operating costs (6-8 at 15-6).

WILL THIS SOLVE THE PENSION CRISIS?

No. Critical status plans could not amend their defined benefit plan to create a composite plan (4 at 10-19). The composite plan concept will harm healthy plans and serve as a catalyst toward the collapse of the multiemployer pension system.

The PBGC multiemployer program is facing a deficit. Under the GROW Act, composite plans will not pay PBGC premiums. Therefore the remaining multiemployer defined benefit plans will see PBGC premiums increase to make up for the growing PBGC deficit. It is inevitable that this will cause currently healthy plans to fall into endangered status, forcing such plans to restructure into composite plans, exacerbating the PBGC deficit and decreasing the IBEW's ability to keep its members covered by a defined benefit plan.